Is This Niche Technology Stock About to Soar in 2019?

Description

With all the hype in the technology space, it's easy to forget that technology isn't limited to social media, e-commerce, artificial intelligence, self-driving cars, or the cloud. Sometimes, clever entrepreneurs can build a technology company by focusing on a niche and scooping up all the data it has to offer.

That's the fundamental principle that underlies the business model of Markham, Ontario-based **Real Matters** (TSX:REAL). As the name suggests, Real Matters is a data provider in the real estate sector — specifically, the mortgage and insurance sector of the North American real estate space.

Over the past 15 years, the company has managed to combine its proprietary software with a network of over 10,000 independent professionals to create a marketplace for mortgage lending and insurance industry services. This marketplace helps banks and financial institutions optimize critical, regulated real estate processes such as appraisals, insurance inspections, title search, and mortgage closings.

It's difficult to say how many other companies offer similar services, but considering how small this niche is and the scale at which Real Matters operates, it's probably an industry leader.

However, these are worrying times for the North American real estate sector. U.S. house sales are subdued, housing price growth is expected to slow down this year, and the real estate refinancing market is at a 18-year low. Canada's property market is on similarly shaky ground — a fact that is reflected by our real estate investment trusts.

In line with a plunging market, Real Matters saw its revenue drop 7% and its net revenue margin contract by 110 basis points over the last fiscal year. The stock, meanwhile, is down a jaw-dropping 61%. The drop is either a justified readjustment considering the economics of the industry or a case of overselling. I took a closer look at the company's balance sheet to figure it out.

Real Matters's software platform and business structure means a rapid increase in volume will significantly expand the earnings before interest, taxes, and depreciation (EBITDA). According to its website, if the revenue from U.S. appraisals (its core service) doubles the EBITDA quintuples.

This means the company has to strive for more volume in what could be a declining market. Considering the fact that it currently generates US$281 million in revenue and the total addressable market is worth US$13 billion, Real Matters has plenty of room to grow, even if the market shrinks.

The trick, as the company has already mentioned, is to secure the business of one America's largest banks. These tier-one banks, which include **Chase, Wells Fargo, Citi, Bank of America**, and Quicken, could flood the company's book with volume and help it achieve its goal.

In my opinion, there's a genuine chance Real Matters could win the business of at least one of these major banks in 2019. In fact, the company came close to striking a deal with one of the players on its wish list in 2018, but that project was suspended for vague reasons.

The management is still hopeful it can net one of these "whales" by the end of 2019, which could turn the stock around. For now, I think valuing the business is too difficult. Investors are better off waiting and watching the stock to see if it can get a big customer to guarantee recurring income for the foreseeable future before diving in.

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vraisinghani